

Comments on proposed SB 814 (Tax preparer liability for underpaid income tax)

I am opposed to this proposal for the following reasons:

My first question is “What is the purpose of this proposed bill?”

1. Claim: This bill will eliminate / reduce the number of unregistered tax preparers, who are called ghost preparers by the IRS. Unregistered tax preparers often produce incorrect returns with the wrong tax and refund data.

CT has passed a bill requiring tax preparers to register with the State. This did little to correct the problem. Ghost preparers often charge low prices and provide unsigned paper returns. Ghost preparers are neither traceable nor accountable. This bill cannot collect unpaid taxes from ghost preparers simply because the State can't find them.

2. Claim: This bill can reduce cheating on income tax returns.

This proposed bill will not reduce cheating, but could increase it.

As a tax preparer and an enrolled agent registered with the IRS, I have no incentive to increase a refund or reduce a tax liability of the taxpayer. I cannot base my preparation fees on the amount of a refund. I do not get extra money if I reduce the amount of taxes paid. I have no financial incentive to cheat.

The taxpayer, in contrast, directly benefits from underreporting income, overstating deductions, and applying for ineligible tax credits. If a taxpayer fails to report income from cash businesses (Uber driver and internet sales) or unreported income (crypto trading and gambling winnings), the taxpayer will blame the preparer. If taxpayers claim phony deductions or an ineligible dependent, they will blame the tax preparer. I could be liable for omissions and misstatements made by the taxpayer.

My second reason for opposing this bill is that tax rules are complicated. The determination of income and expenditures can be challenging. Determination of tax credits is even more difficult. A few years ago, the CT Department of Revenue Services (DRS) published the wrong property tax credit phaseout on their website. The DRS discovered the error in late March. They then sent notices to taxpayers and required repayment of the incorrect credit amount. The DRS also indicated that tax preparers made the error because we used wrong tables and credit calculator even though both

were posted on the DRS website. Under the proposed bill, I could have been held responsible for those repayments.

In conclusion, the proposed bill is open ended and can result in major financial harm to tax preparers. It shifts the burden of taxes from the taxpayer to the person who assists the taxpayer completing and filing complex tax forms. I have been a tax preparer for 15 years and have, on occasion, assisted taxpayers in correcting errors. If a taxpayer complains about paying “extra” tax, I offer the following example.

- You use an ATM at a local bank. Instead of the \$100 you requested, the ATM accidentally gives you \$300. You don’t get to keep the money or expect a teller at the bank to make up the loss. You have to give back the \$200 that you received in error.

Submitted,

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